TAX CREDIT ANALYSIS

Program Name: Missouri Low Income Housing Tax Credit Program

Department: Missouri Housing Development Commission | **Contact Name & No.:** Jennifer Tidwell, 816-759-6890 | **Date:** October 2011

Program Category: Housing | **Type:** Tax Credit__X__ Other (specify)____

Statutory Authority: Sections 135.350 - 135.363, RSMo | **Applicable Taxes:** Income Tax; Corporate Franchise Tax; Insurance Company Annual Tax on Gross Premium Receipts; Other Financial Institutions Tax; Express Company Annual Tax on Gross Premium Receipts

Program Description and Eligibility Requirements:

The Missouri Low Income Housing Tax Credit Program (LIHTC) is a ten-year state tax credit to qualified owners and investors in affordable rental housing. The LIHTC generates equity investments from the private sector for the development of new or rehabilitated rental housing in order to lower rents to affordable levels for low-income families. A qualified development is one that rents at least 20% of its units to families earning 50% of the median family income or at least 40% of its units to families earning 60% of median family income, adjusted for family size. The development must: meet a demonstrated need for affordable rental housing in the community; be economically feasible; leverage tax credits with other financing; demonstrate local support; and provide affordable rental housing for qualified low-income Missourians for an extended period of time, typically 30 years.

Explanation of How Award is Computed: Entitlement ___ Discretionary __X__

The amount of the Missouri LIHTC allocated to a given housing development is directly related to the percentage of low-income housing units made available to qualified low-income families and the acquisition, construction or rehabilitation expenditures to create the development, less land and non-depreciable costs. There are two types of Missouri LIHTC: 9% and 4%. Developments compete annually for the 9% Missouri LIHTC, which enables them to receive tax credits equal to 9% of the total eligible development costs. Developments receiving an allocation of tax-exempt bond-financing from the Dept. of Economic Development may apply to receive the 4% Missouri LIHTC in an amount equal to roughly 4% of the total eligible development costs. The maximum amount of Missouri LIHTC that may be issued for any development is 100% of the federal LIHTC issued for the development.

Program Cap: Cumulative $__________ (remainder of cumulative cap) $__________ Annual 100% of federal LIHTC for 9% and $6 million for 4% None ________

Explanation of cap: The 9% Missouri LIHTC issued through the competitive application cycle is capped at 100% of the federal LIHTC or approx. $2.15 per capita for 2011. Per HB 191

Explanation of Expiration of Authority: N/A

Specific Provisions: (if applicable)

Carry forward __5__ years Carry Back __3__ years Refundable __No__ Sellable/Assignable __No__ Additional Federal Deductions Available __Yes__

Comments on Specific Provisions:

	FY 2009 ACTUAL	FY 2010 ACTUAL	FY 2011 ACTUAL	FY 2012 (current year)	FY 2013 (budget year)
Certificates Issued (#)	417	303	212	440	238
Projects (#)	57	35	26	50	27
Amount Authorized (10 yr)[1]	$316,175,550	$149,068,200	$102,960,000	$185,000,000	$185,000,000
Amount Issued (10 yr)	$145,997,420	$155,703,625	$156,016,305	$167,967,905	$167,912,322
Amount Redeemed	$105,967,104	$142,141,458	$143,055,387	$170,162,272	$202,405,513
EST. Amount Outstanding[2]	N/A	N/A	$282,346,053	N/A	N/A
EST. Amount Authorized but Unissued[3]	N/A	N/A	$998,343,371	N/A	N/A

Notes: 1) The FY11 Actual Amount Authorized reflects new LIHTC authorizations. In FY10, there were also $42,322,530 "deauthorized" from projects authorized credits in previous fiscal years. Problems in the credit and housing markets caused several projects to stall, restructure or fall apart, resulting in returns of some or all of their previously authorized credits. These deauthorizations thereby reduced the EST. Amount Authorized but Unissued. 2) Because of the way tax credits are tracked and reported, redeemed credits cannot be tied to a particular year out of the 10-year credit stream. This makes it impossible to account for expired credits and the effect of the carry forward and carry back period. The figure provided is considered the maximum potential outstanding amount. MHDC is currently working with DOR, DIFP, DED and ITSD on revised tracking methods which would allow for a more accurate estimate of outstanding credits. 3) The Amount Authorized but Unissued includes projects that have received approval but have not completed construction as well as amounts remaining to be issued out of projects' 10 year stream of issuances.

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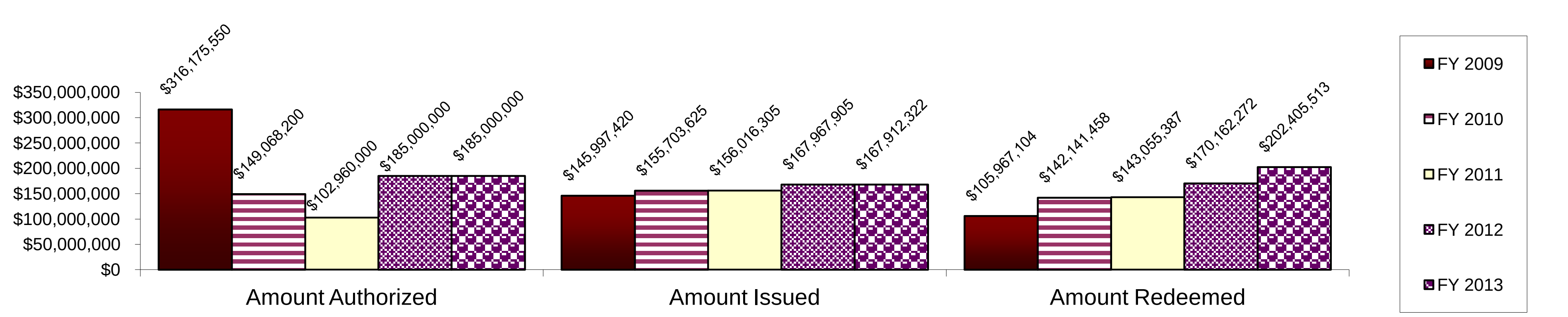
HISTORICAL AND PROJECTED INFORMATION



Comments on Historical and Projected Information: 1) Historically, the amount of authorized and issued LIHTC has fluctuated based upon the number and size of developments receiving an allocation of tax-exempt bond financing from the Department of Economic Development and therefore receiving 4% LIHTC. HB 191 (2009) capped the number of new annual 4% LIHTC authorizations at $6 million and projections for FY12 and FY13 reflect the new cap. 2) The projections of redeemed credits for FY12 and FY13 are estimates based on the amount of credits issued and the historical trend of credits redeemed. This projection cannot precisely account for carry forward and carry back provisions nor the individual credit holder's decision on when to claim a particular credit. 3) The high authorizations in FY09 resulted from MHDC changing its process for counting credits as "authorized," thereby aligning authorizations with the fiscal year in which credits are approved by MHDC's commissioners. The FY09 authorized amount accounts for credits approved in both FY08 and FY09 as MHDC transitioned from the old process to the new. For FY10 and forward, authorizations reflect projects granted initial commission approval and authorization within the same fiscal year.

BENEFIT: COST ANALYSIS (includes only state revenue impacts)

	FY 2011 ACTUAL	Other Fiscal Period (15 years)
BENEFITS		
Direct Fiscal Benefits	$1,646,616	$7,985,291
Indirect Fiscal Benefits	$740,660	$3,591,842
Total	$2,387,276	$11,577,133
COSTS		
Direct Fiscal Costs	$0	$88,443,639
Indirect Fiscal Costs	$0	$0
Total	$0	$88,443,639
BENEFIT: COST	**NA**	**0.13**

Derivation of Benefits:

Investment: (a) $220,539,454 in residential construction and development costs between 2011-2012.
Employment: (a) 55 FTE employee (0 displaced) in Rental/Leasing and Repair/Maintenance industries in 2013-2025; (b) $390,081 in annual maintenance contracting between 2013-2025.
Other Assumptions: (a) 1,572 low income households with reductions of household expenditures by $3,584,160 per annum ($190 monthly per unit) between 2013-2025.
Incentives/Credits: (a) $102,735,000 in Authorized LIHTC between 2011-2023.
Impacts occur in the Statewide Region. Assumptions provided by DED. Estimated using REMI-PI+Statewide Model (remi-fiscal-PI+aug11).
The multi-year fiscal Benefit-Cost Ratio is 0.12 when other program incentives are included.

Other Benefits: The Missouri LIHTC increases the availability of rental housing that is affordable to low-income families and seniors. It also reduces blight and improves communities through the new construction and rehabilitation of affordable rental housing in Missouri. The additional project equity raised by the state LIHTC allows more projects to be built and makes project rents more affordable. In approximately 60% of projects authorized in FY11, the projects would not be feasible as Low Income Housing Tax Credit units without the state tax credit equity, resulting in a loss of approximately 700 affordable rental units in the state. In addition, the rents would increase an average of $190/month without the state tax credit equity. The reduced rents brought about by the state tax credit increases households' disposable income and allows low-income families and seniors to meet more of their other basic necessities such as food, clothing, education and health care. The Missouri LIHTC increases the quality of construction and provides additional amenities in developments such as community rooms for seniors and learning centers for children living in affordable multi-family housing developments in Missouri. The subsidy provided by the Missouri LIHTC also makes it economically feasible to develop new or rehabilitated affordable rental housing in many very low-income rural communities in Missouri. Lastly, the Missouri LIHTC helps preserve affordable rental housing that is in danger of being lost from the affordable housing stock and it leverages millions of dollars of federal rental assistance for many low-income families and seniors in Missouri.

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Other Benefits (cont'd):

In FY-2011, every dollar of authorized program tax credits returns

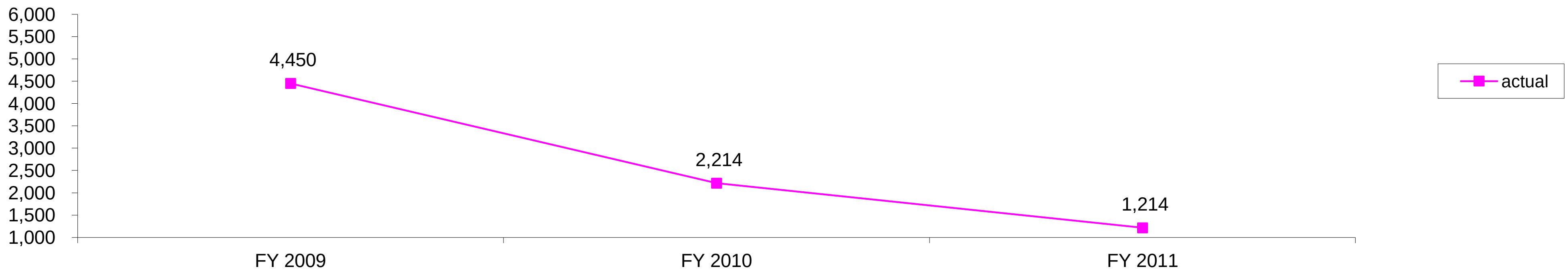
N/A in new personal income totaling	$47.74 million
N/A in new value-added/GSP totaling	$80.49 million
N/A in new economic output totaling	$141.94 million

Over 15 YEARS, every dol lar of authorized program tax credits returns

$2.91 in new personal income totaling	$257.58 million
$4.50 in new value-added/GSP totaling	$398.28 million
$7.21 in new economic output totaling	$637.78 million

PERFORMANCE MEASURE(S)

Number of Housing Units Produced or Preserved



Comments on Performance Measure: This performance measure is the total number of LIHTC housing units placed in service each year from FY 2008-FY 2011. The reduction in units placed in service during FY 2010 is largely due to previously approved projects that stalled and/or fell apart due to turmoil in the credit investor market and housing market over the past 18-24 months.